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TAGS: [PGOV](#) [KCRM](#) [SOCI](#) [PREL](#) [BR](#)

SUBJECT: BRAZIL SCANDAL: DIRCEU RESIGNS, MORE CABINET MOVES
TO COME

REF: A. BRASILIA 1494

[B](#). BRASILIA 1544

[C](#). BRASILIA 1602

[D](#). BRASILIA 1622

[E](#). BRASILIA 1290

1.(SBU) SUMMARY. Late on June 16, Jose Dirceu, the Chief of Staff and right-hand man to Brazilian President Lula da Silva, resigned amid an unfolding corruption scandal (refs A-D). The move has been rumored for days and should take some of the heat off the Lula administration, which for four weeks has been paralyzed by an interlocking series of scandals. Dirceu submitted his resignation two days after Congressman Roberto Jefferson, in testimony before Congress, accused him of involvement in a scheme in which officials of President Lula's Workers' Party (PT) allegedly paid thousands of dollars per month to allied parties to secure their votes in Congress. As Dirceu readies himself to take up a seat in Congress next week, further cabinet changes are inevitable. At the top of the list to lose their jobs are Central Bank Director Henrique Meirelles, Social Security Minister Romero Juca, and Lula's Political Coordinator Aldo Rebelo. Others with their heads near the chopping block include Labor Minister Ricardo Berzoini and Social Development Minister Patrus Ananias. We have even heard uncorroborated rumors that ForMin Amorim may be replaced by Lula's Foreign Affairs Advisor, Marco Aurelio Garcia. The initial reaction to Dirceu's resignation is relief, the sense that this will help reduce the pressure on President Lula. The scandals will continue to unfold in Congress at least through the end of June. END SUMMARY.

DIRCEU'S DEPARTURE: THE STRUGGLE CONTINUES

[2](#). (SBU) In a press conference held late on June 16, President Lula's powerful Chief of Staff, Jose Dirceu, announced his resignation. He will take up the congressional seat (PT-Sao Paulo) that he won in the 2002 elections, but says he has no plans to seek a Congressional leadership post, as he will focus on defending himself and the administration from the ongoing wave of corruption allegations (refs A-D). While his long-term future remains cloudy, Dirceu will likely have a large role in Lula's reelection campaign next year. In his resignation letter, Dirceu thanked Lula for his support, ending the letter with the PT slogan "The struggle continues". He told the assembled press and staffers, "I'm not ashamed of anything I did. I have clean hands and a heart without bitterness. I leave with my head high".

[3](#). (SBU) Dirceu has been by Lula's side since before they co-founded the PT in 1980. As party president in the 1990s, Dirceu engineered its reorientation towards the political center. Since Lula took office in 2003, Dirceu has been his indispensable right-hand man, sometimes even called "Prime Minister." Dirceu managed to survive the "Waldomiro scandal" in 2004, in which a senior advisor on his staff was caught soliciting bribes, but the current crisis is more serious and appears to implicate Dirceu personally. His replacement is expected to be announced Monday. Among those in the running are well-regarded Justice Minister Marcio Thomas Bastos (who reportedly has no interest); the moderate PT governor of Acre state, Jorge Viana; and the popular PT mayor of the northeastern city of Aracaju, Marcelo Deda. A long-shot possibility is Finance Minister Palocci. Dirceu's replacement is not expected to be named before Monday.

THE INEVITABLE CABINET SHUFFLE - MEIRELLES...

[4](#). (SBU) Dirceu's departure is expected to be the first step in a broader cabinet shuffle slated for the coming days. The two previous times (in January 2004 and March 2005) that Lula shuffled his cabinet, he did so in an excruciatingly long and public process --but this round should go more quickly. Among the changes deemed to be near-certain: the departure of Central Bank President Henrique Meirelles (ref E), under investigation by the Supreme Court on tax evasion charges unrelated to the current scandals. Like Dirceu, Meirelles won a Congressional seat in 2002, but he renounced it (rather than taking a leave of absence) when he joined the Central Bank, meaning he probably can not return to Congress and the immunity it offers. Meirelles has long planned to leave the Central Bank in August to prepare his 2006 campaign for governor of Goias state. Events may simply be forcing him out earlier (and pouring cold water on his campaign). The GoB has already positioned Murilo Portugal, its former

Executive Director at the IMF and current Vice-Minister of Finance, to take over Meirelles' job. Financial markets, which have largely discounted Mereilles' departure, do not expect any shift in monetary policy.

JUCA AND REBELO LIKELY TO GO

15. (SBU) Another deemed near-certain to lose his cabinet post is Social Security Minister Romero Juca, who has a set of serious criminal charges (unrelated to the current scandal) pending before the Supreme Court. If Juca resigns, he will return to the Senate seat from whence he came. But Juca is a nominee from the PMDB party, Lula's largest and most unwieldy coalition partner (ref D). Thus if Juca goes, Lula will have to negotiate who from the PMDB will join the cabinet in his stead. One possibility is well-regarded Senator Pedro Simon who hails from the PMDB's "anti-Lula" wing. If Simon joins the cabinet, it would signal that the PMDB is uniting behind Lula --and the party will demand a correspondingly larger role in policy-making and in the cabinet. The PMDB could also demand the Vice-Presidential slot on Lula's 2006 slate.

16. (SBU) Lula's cabinet-rank Political Coordinator, Aldo Rebelo, will probably resign and return to the Chamber of Deputies. Rebelo has failed to coordinate the administration's agenda in Congress, and Lula reportedly regrets that he split this portfolio off from Dirceu's job in early 2004. Rebelo, from the Communist Party, has also suffered incessant back-stabbing from PT party insiders. If Rebelo goes, this position will be downsized and folded back into the Chief of Staff position. More broadly, if the unwieldy 36-member cabinet is downsized, look for the three Secretaries of Human Rights, Racial Equality, and Women's

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Affairs to be folded into the Justice Ministry; and the Secretary for Fishing to be folded into the Agriculture

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Ministry.

OTHER POSSIBLE CABINET CHANGES

17. (SBU) Among the Ministers deemed possible, but not certain, to lose their jobs are Labor Minister Ricardo Berzoini. Berzoini has done a creditable job and is one of the few representatives of the PT's left wing in the cabinet, but Lula could be looking to create space both the PMDB and the PP party. (The rightist PP is in Lula's coalition but has never had a formal cabinet slot. Its stock rose dramatically in February when PP Deputy Severino Cavalcanti became Speaker of the Chamber of Deputies.) PP Deputy Francisco Dornelles, who was Labor Minister under President Cardoso, could take Berzoini's job. Elsewhere, press reports suggest that Social Development Minister Patrus Ananias could be replaced by businessman Abilio Diniz of the Pao de Acucar supermarket chain. In addition, Lula will encourage those Ministers who plan to run for elective office in 2006 to step down. These may include Science Minister Eduardo Campos and Health Minister Humberto Costa. Almost every cabinet minister's name seems to be in play (though JusMin Bastos and FinMin Palocci are certain to stay in the cabinet even if they change portfolios). We have even heard uncorroborated speculation from Foreign Ministry diplomats that Foreign Minister Celso Amorim may get sent out to an important embassy so Lula can make Marco Aurelio Garcia, currently his Foreign Affairs Advisor, the new Foreign Minister.

COMMENT - TAKING THE HEAT OFF

18. (SBU) Dirceu's departure will reduce the pressure on Lula. The scandal has attached to Dirceu and the PT party rather than Lula himself, and it seems likely to continue to boil in Congress at least until the legislature goes into its month-long recess on July 1 --and even longer as the congressional inquiry committees (CPIs) get down to work. The cabinet shuffle is very much the stuff of speculation at this point, but the serial scandals have no doubt focused Lula's mind wonderfully and impressed upon him the importance of a quick and decisive shuffle.

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